



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

---

Office of Audit Services  
Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278  
(212) 264-4620

October 15, 2003

Report Number: A-02-03-02009

Antonia C. Novello, M.D., M.P.H., Dr.P.H  
Commissioner  
New York State Department of Health  
Corning Tower Building  
Empire State Plaza  
Albany, New York 12237

Dear Dr. Novello:

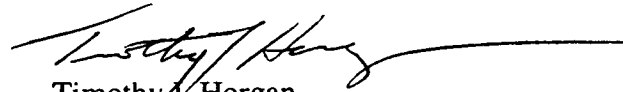
Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), report entitled "*Review of New York State's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response to Bio-terrorism Program Funds.*" A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See CFR Part 5.)

To facilitate identification, please refer to report Number A-02-03-02009 in all correspondence relating to this report.

Sincerely,



Timothy J. Horgan  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Joseph E. Salter, Director  
Management Procedures Branch  
Management Analysis and Services Office  
Centers for Disease Control and Prevention  
1600 Clifton Road, N.E., MS E-11  
Atlanta, Georgia 30333

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF NEW YORK STATE'S EFFORTS  
TO ACCOUNT FOR AND MONITOR  
SUB-RECIPIENTS' USE OF PUBLIC HEALTH  
PREPAREDNESS AND RESPONSE TO  
BIO-TERRORISM PROGRAM FUNDS**



**October 2003  
A-02-03-02009**

# *Office of Inspector General*

<http://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

---

Office of Audit Services  
Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278  
(212) 264-4620

October 15, 2003

Report Number: A-02-03-02009

Antonia C. Novello, M.D., M.P.H., Dr.P.H.  
Commissioner  
New York State Department of Health  
Corning Tower Building  
Empire State Plaza  
Albany, New York 12237

Dear Dr. Novello:

This final report presents the results of the Office of Inspector General's self-initiated audit entitled, "*Review of New York State's Efforts to Account for and Monitor Subrecipients' Use of Public Health Preparedness and Response to Bio-Terrorism Program Funds.*"

## EXECUTIVE SUMMARY

### OBJECTIVES

The objectives were to determine whether Health Research, Incorporated (HRI) properly recorded, summarized and reported bio-terrorism preparedness transactions by specific focus areas designated in the cooperative agreements. In addition, we inquired as to whether bio-terrorism funding supplanted programs previously funded by other organizational sources and whether HRI established controls and procedures to monitor sub-recipients' expenditures of Centers for Disease Control and Prevention (CDC) funds.

### SUMMARY OF FINDINGS

Our review found that HRI accounted for bio-terrorism program funds in accordance with the terms and conditions of the cooperative agreements with CDC. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to

account for bio-terrorism funding. In response to our inquiry as to whether the New York State (NYS) Department of Health (DOH) reduced funding to existing public health programs, HRI officials stated that CDC funding had not been used to supplant existing State or local programs. We found that, while HRI implemented procedures to monitor sub-recipient's expenditures of CDC funds, they are not currently performing on-site audits of sub-recipients. However, HRI officials indicated that they plan to implement an on-site audit component to their monitoring procedures in the future.

## **RECOMMENDATION**

We recommend that HRI continue to implement plans to add an on-site audit component for monitoring sub-recipients and address problem areas, as they are identified.

### ***Auditee Comments***

In comments dated September 19,2003, NYSDOH officials stated that they were pleased to note that our report confirms that funds allocated to New York State to prepare for and respond to bio-terrorist events and other public health emergencies have been spent and accounted for in accordance with the grant requirements. They requested that we substitute the phrase "on-site audit component" in place of "site-visit component" throughout the report because it more clearly defines the monitoring procedures that HRI plans to implement.

### ***OIG Response***

We appreciate the assistance of NYSDOH and HRI in performing this review. We have modified the report to reflect the language change requested by NYSDOH officials.

## **INTRODUCTION**

## **BACKGROUND**

### ***Public Health Preparedness And Response To Bio-terrorism Program***

CDC was designated as the entity responsible to improve State, and other eligible entities, preparedness and response capabilities for bio-terrorism and other public health emergencies. The Public Health Preparedness And Response To Bio-terrorism Program (the Program) is authorized under Sections 301(a), 317(k)(1)(2), and 319 of the Public Health Service (PHS) Act [42 U.S.C. sections 241(a), 47b(k)(1)(2), and 247(d)]. The U.S. Code states, in part:

*...The Secretary may make grants to States, political subdivisions of States, and other public and nonprofit private entities for – (A) research into the prevention and control of diseases that may be prevented through*

*vaccination; (B) demonstration projects for the prevention and control of such diseases; (C) public information and education programs for the prevention and control of such diseases; and (D) education, training, and clinical skills improvement activities in the prevention and control of such diseases for health professionals (including allied health personnel)....*

CDC, under Program Announcement 99051, initiated a cooperative agreement program to fund States and major local public health departments to help upgrade their preparedness and response capabilities in the event of a bioterrorist act.

Years 1 and 2 of the Program covered the period August 31, 1999 through August 30, 2000 and 2001, respectively. Annual funding totaled \$40.7 million and \$41.9 million. Although Year 3 initially covered the period August 31, 2001 through August 30, 2002, it was extended through August 30, 2003 with funds totaling \$49.9 million. During Year 3 of the Program, Congress authorized approximately \$918 million in supplemental funds under the Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002, Public Law 107-117. The funds were available on February 19, 2002 and were awarded to States and major local public health departments, under Program Announcement 99051-Emergency Supplemental. Of the awarded amount, 20 percent was available for immediate use. The remaining 80 percent was restricted until CDC approved the required work plans.

Applicants requested support for activities under one or more of the following focus areas:

- Focus Area A - Preparedness Planning and Readiness Assessment
- Focus Area B - Surveillance and Epidemiology Capacity
- Focus Area C - Laboratory Capacity - Biologic Agents
- Focus Area D - Laboratory Capacity - Chemical Agents
- Focus Area E - Health Alert Network/Communications and Information Technology

In Year 3, CDC added two new focus areas:

- Focus Area F - Communicating Health Risks and Health Information Dissemination
- Focus Area G - Education and Training.

Grant recipients included all 50 States, the District of Columbia, the commonwealths of Puerto Rico and the Northern Marianas Islands, American Samoa, Guam, the U.S. Virgin Islands, the republics of Palau and the Marshall Islands, the Federated States of Micronesia, and the nation's three largest municipalities (New York City, Chicago, and Los Angeles County). Those eligible applicants included the health departments of States or their bona fide agents. Applicants were encouraged to apply for funds in all focus areas.

***Related Reports***

In March 2003, the Office of Inspector General (OIG) performed a review (Number A-09-02-01007) which identified one State that: (1) did not account for the Program funds by focus area and (2) could not adequately support the Program expenditures on Financial Status Reports (FSRs) submitted to CDC. As a result, OIG initiated limited scope reviews of the Program funds provided to 13 State and 4 local Governments including NYS.

***NYS Program Administration***

DOH is responsible for the administration of the Program. DOH’s affiliate, HRI, performs the day-to-day administrative duties associated with the Program. As shown in the following table, funding for the Program in NYS totaled \$38,507,865 and covered the period August 31, 1999 through August 30, 2003.

<b>CDC GRANT AWARD AMOUNTS</b>				
<b>Focus Area</b>	<b>Budget Year 1 (8/31/99-8/30/00)</b>	<b>Budget Year 2 (8/31/00-8/30/01)</b>	<b>Budget Year 3 (8/31/01-8/30/03)</b>	<b>Total</b>
<b>A</b>	-	-	\$15,457,312	<b>\$15,457,312</b>
<b>B</b>	\$499,006	\$609,331	\$3,630,537	<b>\$4,738,874</b>
<b>C</b>	\$381,501	\$403,682	\$4,359,515	<b>\$5,144,698</b>
<b>D</b>	\$568,739	\$580,059	\$1,832,868	<b>\$2,981,666</b>
<b>E</b>	\$747,404	\$755,249	\$5,875,522	<b>\$7,378,175</b>
<b>F</b>	-	-	\$601,180	<b>\$601,180</b>
<b>G</b>	-	-	\$2,205,960	<b>\$2,205,960</b>
<b>TOTAL</b>	<b>\$2,196,650</b>	<b>\$2,348,321</b>	<b>\$33,962,894</b>	<b>\$38,507,865</b>

**OBJECTIVES, SCOPE AND METHODOLOGY**

***Objectives***

Our objectives were to determine whether HRI properly recorded, summarized and reported bio-terrorism preparedness transactions by specific focus areas designated in the cooperative agreements. In addition, we inquired as to whether bio-terrorism funding supplanted programs previously funded by other organizational sources and whether HRI established controls and procedures to monitor sub-recipients’ expenditures of CDC funds.

***Scope***

Our review was limited to obtaining HRI’s response to the questionnaire we provided and performing limited validation of the data contained therein. We did not assess the adequacy of the internal control structure of HRI, nor did we determine whether costs



charged to the Program were allowable. Consequently, our review would not necessarily disclose all material weaknesses.

In addition, our review was limited to HRI policies and procedures, financial reports, and accounting transactions for the period August 31, 1999 through February 28, 2003.

### ***Methodology***

We developed a questionnaire to address the objectives of the review. The questionnaire covered the following areas: (i) the grantee organization, (ii) funding, (iii) accounting for expenditures, (iv) supplanting, and (v) sub-recipient monitoring. Prior to our fieldwork, we provided the questionnaire for HRI to complete. To accomplish our objectives, we:

- reconciled CDC grant award amounts, as reported on the completed questionnaire, to HRI's books and records,
- relied on the completed questionnaire and interviews with HRI officials to assess whether:
  - bio-terrorism funding supplanted programs previously funded by other organizational sources, and
  - HRI established controls and procedures to monitor sub-recipients' expenditures of CDC funds.

Fieldwork was conducted at HRI offices in Rensselaer, New York during June 2003.

Our review was performed in accordance with generally accepted government auditing standards.

## **FINDINGS & RECOMMENDATION**

Based on our validation of the questionnaire completed by HRI officials and our site-visit, we found that HRI accounted for the Program funds in accordance with the terms and conditions of the cooperative agreements with CDC. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding. In response to our inquiry as to whether DOH reduced funding to existing public health programs, HRI officials stated that CDC funding had not been used to supplant existing State or local funds for bio-terrorism, infectious disease outbreaks, other public health threats and emergencies. We found that, while HRI implemented procedures to monitor sub-recipient's expenditures of CDC funds, they are not currently performing on-site audits of sub-recipients. However, HRI officials indicated that they plan to implement an on-site audit component to their monitoring procedures in the future.

### ***Accounting for Expenditures***

An essential aspect of the Program is the need for the grantee to accurately and fully account for bio-terrorism funds. Accurate and complete accounting of the Program funds provides CDC with a means to measure the extent that the Program is being implemented and the objectives are being met.

In that regard, recipients of the Program grant funds are required to track expenditures by focus area. Note 3: Technical Reporting Requirements of the original Cooperative Agreement states:

*...To assure proper reporting and segregation of funds for each focus area, Financial Status Reports (FSR's) which reflect the cooperative agreement number assigned to the overall project must be submitted for individual focus areas...*

Based on our validation of the completed questionnaire, we found that HRI accounted for the Program funds in accordance with the terms and conditions of the cooperative agreements with CDC. Specifically, HRI recorded, summarized and reported transactions in discrete accounts established to account for bio-terrorism funding.

### ***Supplanting***

The Program funds, original and supplemental, were to be used to augment current funding and focus on public health preparedness activities under the cooperative agreements with CDC. The funds were not to be used to supplant existing Federal, State, or local funds for bio-terrorism, infectious disease outbreaks, other public health threats and emergencies, and public health infrastructure within the jurisdiction. Program Announcement 99051 states:

*“Cooperative agreement funds under this Program may not be used to replace or supplant any current State or local expenditures of the Public Health Service Act.”*

In response to our questionnaire, HRI officials stated that prior to receiving bio-terrorism funding in August 1999, DOH did not have the Program. DOH had a century-long history of infectious disease surveillance, monitoring and control. State and local health departments worked collaboratively to respond to communicable disease outbreaks. In addition, DOH was responsible for coordinating emergency preparedness activities and responses to disasters. The funds provided by CDC permitted DOH to establish the Program. In response to our inquiry as to whether DOH reduced funding to existing public health programs, HRI officials stated that CDC funding had not been used to supplant existing State or local programs.

Based on the completed questionnaire and our interviews with HRI officials, nothing came to our attention to suggest that HRI has used the grant funds to supplant existing programs.

### ***Sub-Recipient Monitoring***

Recipients of the Program grant funds were required to monitor their sub-recipients. The Public Health Services Grants Policy Statement requires that: “grantees employ sound management practices to ensure that Program objectives are met and that project funds are properly spent.” It states recipients must:

*...establish sound and effective business management systems to assure proper stewardship of funds and activities....*

In addition, the Policy Statement states that grant requirements apply to subgrantees and contractors under the grants.

*...Where sub-grants are authorized by the awarding office through regulations, program announcements, or through the approval of the grant application, the information contained in this publication also applies to subgrantees. The information would also apply to cost-type contractors under grants...*

In response to our questionnaire, HRI officials indicated that several procedures are in place to monitor fiscal and programmatic activities of sub-recipients. Currently, HRI reviews contracts prior to final payment to ensure that grant funds are appropriately spent. After the completion of contracts, HRI performs desk audits on selected contracts to determine if the contracts were properly executed. In the future, HRI plans to implement an on-site audit component to its monitoring procedures. DOH reviews monthly progress reports, conducts meetings every four to five months with sub-recipients, and performs site visits to ensure that the Program goals are being met. Based on the completed questionnaire and our interviews, we found that DOH and HRI employ sound management practices to ensure that the Program objectives are met and that funds are properly spent.

### **RECOMMENDATION**

We recommend that HRI continue to implement plans to add an on-site audit component for monitoring sub-recipients and address problem areas, as they are identified.

### **OTHER MATTERS**

Un-obligated funds represent budget authority previously granted to an agency, which has not yet been committed, but continue to be available for commitment in the future. NYS provided us with its un-obligated fund balances for the Program, as of August 30, 2002, for each budget year, as shown in the following table.

<b>UN-OBLIGATED FUNDS</b>			
<b>Focus Area</b>	<b>Budget Year 1 (8/31/99-8/30/00)</b>	<b>Budget Year 2 (8/31/00-8/30/01)</b>	<b>Budget Year 3 (8/31/01-8/30/02)</b>
<b>A</b>	-	-	\$9,301,553
<b>B</b>	\$141,288	\$93,225	\$2,869,381
<b>C</b>	\$2,261	\$648	\$3,288,069
<b>D</b>	\$14,452	\$5,427	\$109,125
<b>E</b>	\$26,155	\$76,112	\$4,246,997
<b>F</b>	-	-	\$345,187
<b>G</b>	-	-	\$2,148,658
<b>TOTAL</b>	<b>\$184,156</b>	<b>\$175,412</b>	<b>\$22,308,970</b>

HRI accounted for all un-obligated balances during each budget year. In budget year 1 and 2, the un-obligated balances were due to the time lag to recruit new staff and obtaining legislative approval to execute county contracts. In budget year 3, the un-obligated balances were due to staffing changes, in-process purchases, and the timing of receipt of the grant.

***Auditee Comments***

In comments dated September 19,2003, NYSDOH officials stated that they were pleased to note that our report confirms that funds allocated to New York State to prepare for and respond to bio-terrorist events and other public health emergencies have been spent and accounted for in accordance with the grant requirements. They requested that we substitute the phrase “on-site audit component” in place of “site-visit component” throughout the report because it more clearly defines the monitoring procedures that HRI plans to implement.

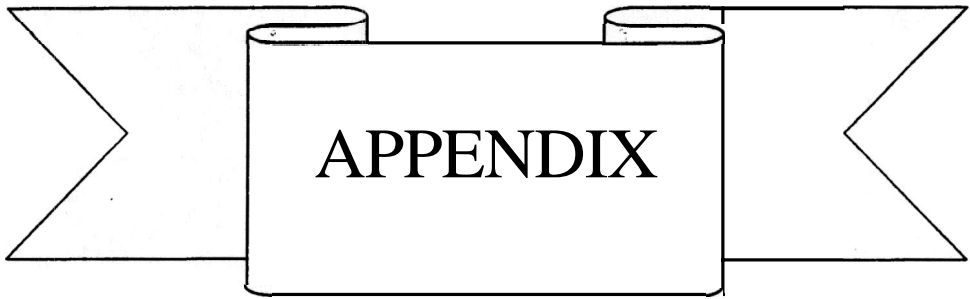
***OIG Response***

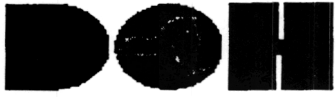
We appreciate the assistance of NYSDOH and HRI in performing this review. We have modified the report to reflect the language change requested by NYSDOH officials.

Sincerely yours,



Timothy J. Horgan  
Regional Inspector General  
for Audit Services





STATE OF NEW YORK  
DEPARTMENT OF HEALTH

APPENDIX  
Page 1 of 3

Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Antonia C. Novello, M.D., M.P.H., Dr.P.H.  
*Commissioner*

Dennis P. Whalen  
*Executive Deputy Commissioner*

September 19, 2003

Timothy J. Horgan  
Regional Inspector General for  
Audit Services  
DHHS OIG Office of Audit Services  
26 Federal Plaza  
Room 3900A  
New York, New York 10278

Dear Mr. Horgan:

Enclosed are the Department of Health's comments on the DHHS - OIG's Draft Audit (A-02-03-02009) entitled "Review of New York State's Efforts to Account for and Monitor Sub-recipients' Use of Public Health Preparedness and Response to Bio-terrorism Program Funds."

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Whalen', written over a horizontal line.

Dennis P. Whalen  
Executive Deputy Commissioner

Enclosure

**Department of Health  
Comments on the  
DHHS – Office of Inspector General  
Draft Audit Report A-02-03-02009  
Entitled “Review of New York State’s Efforts to Account for and  
Monitor Sub-recipients’ Use of Public Health Preparedness and  
Response to Bio-terrorism Program Funds”**

---

The following are the Department of Health’s (DOH) comments in response to the DHHS – Office of Inspector General’s (OIG) Draft Audit Report A-02-03-02009 entitled “Review of New York State’s Efforts to Account for and Monitor Sub-recipients’ Use of Public Health Preparedness and Response to Bio-terrorism Program Funds.”

**General Comments:**

The Department is pleased to note that the Inspector General's report confirms that funds allocated to New York State to prepare for and respond to bio-terrorist events and other public health emergencies have been spent and accounted for in accordance with the grant requirements. The continued funding announced by the Department of Health and Human Services will allow us to build on this year's progress.

**Recommendation #1:**

We recommend that HRI continue to implement the site visit component for monitoring sub-recipients and address problem areas, as they are identified.

**Response #1:**

In the Executive Summary, the Summary of Findings Section, the draft report states that “We found that HRI is not currently performing site visits of sub-recipients, however they plan to implement a site visit component to their monitoring procedures in the future.” The documented combined DOH/HRI sub-recipient monitoring activity with regard to this program as described on page 7 in the Findings and Recommendations section on Sub-Recipient Monitoring is correct as presented. This narrative correctly indicates that site visits to funded programs are a current sub-recipient monitoring activity being carried out by DOH staff.

**Response #1 (continued):**

The Department believes that the recommendation intends to convey information HRI officials provided to the Office of Inspector General staff relating to HRI's intention to augment its current desk audit capacity by conducting field audits. The referenced entries should be clarified and made consistent by substituting the phrase "on-site audit component," in place of "site visit component" in the Executive Summary where found in both the Summary of Findings and Recommendation sections. This nomenclature also appears in the Finding and Recommendation sections sub-recipient monitoring and accompanying recommendation and should be revised there as well.